Financing our Future
High-level Policy Dinner

REPORT

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Ahead of the United Nations Summit of the Future in New York in September 2024, Friends of Europe and the Africa-Europe Foundation facilitated a roundtable discussion on the topic of reshaping the current financial architecture towards a more sustainable future.

Co-led by Namibia and Germany, the UN Summit is outlined as *“a moment to mend eroded trust and demonstrate that international cooperation can effectively tackle current challenges…”* With increased global attention on a post-2030 world, now is the time to ensure international partnerships are underpinned by equity and foresight in action.

The high-level dinner-roundtable brought together Brussels-based ambassadors and senior representatives from international organizations and partners for a stimulating debate geared towards mobilizing sustainable and innovative finance solutions that unlock development potential and future-proof the global agenda.

As put by the moderator, there is “money sloshing around the system that’s not making its way” to the countries that need it.

Key recommendations

- To reform financial systems, actors must simultaneously focus on rebuilding trust lost due to previously unkept commitments. Moving forward, inclusivity in cooperation and dialogue are essential, doing away with a solely self-centred approach to decision-making in favor of one that contributes to safeguarding a collective future.

- Leaders should acknowledge the mutual benefits of strengthened partnerships and act accordingly. Europe for example depends on cooperation with Africa to achieve its climate goals and rehabilitate its aging and shrinking workforce; visa systems should thus reflect such capacity exchange. Carbon diplomacy was also identified as a potential enabler of strong EU partnerships with global players, including countries in Africa with abundant natural capital.

- The cost-of-capital continues to hinder countries’ ability to invest in their own development, forced to redirect already stretched resources to high debt-service payments. In the African context for example, the problem is not that countries have too much debt, it’s that their debt is too expensive. Addressing the cost-of-capital issue is fundamental and should be complemented by strengthened efforts to fully leverage domestic resource mobilisation.

- The world’s biggest banks should consider appointing development officers, just as they now have sustainability officers, to manage the targeted flow of investments, ensuring adequate returns which directly contribute to the mission of meeting country development goals.

Regaining trust in multilateralism

Leaders agreed that many great ideas and recommendations for achieving a more financially sustainable future have already been put on the table in recent years. The time has now come to focus on the "how" - on implementation - and discuss concrete ways of achieving desired results.

To that end, and in view of the UN Summit of the Future in September, country envoys stressed the importance of international cooperation.

"Multilateralism is part of our DNA," said one African Ambassador. "I would even say it's part of our national identity," they added, going further to acknowledge the "instrumental role" the UN has played in their country's growth trajectory.

A European counterpart, echoed the sentiment, adding that the UN Summit will be "one of the key moments this year for safeguarding the international order," and we need "a very concise, clear, innovative pact to come out of it." Actors around the table agreed that the pact, which will be adopted in New York, needs to outline concise pathways for sustainable development and needs to be understood globally by citizens and politicians alike for their buy-in. Outcomes of the Summit should also be built on and integrated in upcoming COP29 and COP30 agendas.

The Summit is thus an opportunity to invest in a multilateral system and rebuild trust, which as several representatives pointed out, has eroded over time given promises made at previous summits have not fully materialised. Yet as one representative put it, "the momentum could not be better. There is a light at the end of the tunnel, but what we need now is to come together. Sometimes we feel we are not listened to." Moving forward, an ambassador explained, trust will be the basis of all potential progress.

To regain trust, a civil society representative noted reciprocity in the global financial architecture as a solution, implying transforming development cooperation into a circular cooperation model. This means shifting away from a transfer of resources where the actor who is investing holds all decision-making power, towards a system in which all actors learn from each other and exchange knowledge for mutual, global benefit. A shift that is not easy to achieve within the current political environment, they added.

Shifts in mindset, from debt to official development assistance (ODA)

Country representatives voiced that finance is taking a more prominent role in policy discussions. However, conversations on finance must go hand in hand with those on debt.

The current global economy is seeing many countries, including high-income ones in Europe and the United States, having to manage high levels of public debt; but lower-income countries experience the direct and complicated relationship between debt sustainability and development aspirations.

For example, Namibia's debt to GDP ratio stands at 66%, with over 14% of its budget allocated annually to service debt repayment. While the country continues its ambitious pursuit of green industrialisation, the current system is said to hinder the transition. Thus, a new framework for closing the financing gap is needed to achieve Sustainable Development Goals (SDGs).

As outlined during the last EU-AU Summit in 2022, Africa will need an estimated US$ 1.3 trillion annually to achieve the SDGs by 2030. Thus reframing our perception of debt could help facilitate debt sustainability, some participants argued. "It's important to know debt itself is not a bad thing, unsustainable debt is a bad thing," emphasised one European envoy. They went on to point out that the world's biggest banks all have chief climate officers, sustainability officers, but they do not have development officers – this integration of objectives is key to ensure smart, SDG-oriented investments.

By comparison, a CSO representative highlighted that last year, net finance flows to low-income countries turned negative. "There is more money coming out in debt-service payments than money going in," they stated. "The problem is not that African countries have too much debt, it's that their debt is too expensive." The perception of development funders ought to shift to consider financing as true investments, from which Europe, the United States and other wealthy actors stand to benefit in the long run.

Looking beyond low-income countries, an African representative highlighted that many middle-income countries also face large inequalities and a lack of investment in infrastructure and social services. Hence, the idea of a country 'graduating' from development cooperation schemes based on GDP per capita performance does not seem adequate, and alternative ways of categorising countries, such as through the Vulnerability Index, are worth exploring.

Lastly, existing financial sources fall short of meeting Africa's sustainable development needs. This is in part due to the fact that ODA flows are the product of a different time and need to be adapted to a globalised context prone to poly-crisis. Participants acknowledged that The Netherlands will likely follow in Sweden's footsteps and cut its developmental aid packages, which could deepen financial constraints. In view of this, an African envoy confirmed that the main source of development finance should be each country's own domestics resource mobilisation, emphasising the importance for economic activities being taxed in their place of origin.

Sectors holding the most promise

Just transitions towards renewable energy systems, underpinned by science and research, were a crucial field in which attendees unanimously agreed Europe, which wants to be a climate leader, needs Africa, which holds 60% of the world's solar potential.

"We're trying to mobilise finance to achieve broader developmental objectives," pointed out a think tank representative. Energy security must be a priority as should fair and equitable trade: "If we had fair and equitable trade in a number of countries, they would not need aid. A lot of the pathologies we've been discussing would not exist."

Attendees likewise agreed more discussions on carbon diplomacy, as well as carbon credits, must take place at COP29 and COP30.

Looking ahead

Participants agreed that unlocking innovative finance mechanisms, facilitating the proper allocation of existing funds, limiting illicit financial flows and ensuring targeted investments are essential to safeguard our collective future.

A follow-up convening will be scheduled in November 2024 to take stock of UN Summit outcomes and reflect on further financing questions ahead of COP29, paving the way forward as the new EU College of Commissioners take their seats and the AU Commission gears up for elections, and ahead of the G20 Presidency by South Africa.

The Africa-Europe Foundation is an independent platform for multi-stakeholder dialogue, frank debate and strategic analysis, bringing people together to further a stronger Africa-Europe Partnership.

www.africaeuropefoundation.org

andrea.konstantinidi@africaeuropefoundation.org

Square de Meeûs 5-6, 1000 Brussels, Belgium

Friends of Europe is a leading think-tank that connects people, stimulates debate and triggers change to create a more inclusive, sustainable and forward-looking Europe.

www.friendsofeurope.org

francisco.lopez@friendsofeurope.org

Square de Meeûs 5-6, 1000 Brussels, Belgium